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SERVICE AT COST

FOR

STREET RAILWAYS

A SYMPOSIUM

Four Papers by Experienced Public Officials Answering the Question, "Is Service-at-Cost a Panacea or Nostrum?"

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SERVICE-AT-COST—PANACEA OR NOSTRUM?

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BOSTON—THE PUBLIC TRUSTEE PLAN

BY JAMES F. JACKSON

Chairman, Board of Trustees, Boston Elevated Railway

Chapter 159 of the acts of the legislature of Massachusetts of 1918, known as the Public Control Act, went into effect on the first day of July in that year. It arranged what is practically a lease of the Boston Elevated Railway for the term of ten years to the state of Massachusetts representing for that purpose Boston and certain suburban cities and towns which the railway serves. Five trustees to be appointed by the governor of the state and to hold office for the ten years of the lease were given absolute control over the management and operation of the railway. The rental was to be paid in fixed dividends upon outstanding stock at 5 per cent for the first two years, at $5\frac{1}{2}$ per cent for the next two years and at 6 per cent for the balance of the term.

This act grew out of the vain struggle under private management to furnish service upon a five-cent fare, a struggle that even under pre-war prices and conditions had grown more and more desperate until the payment of dividends was suspended and the effort to maintain the property practically abandoned. The problem was no longer a question of profits for stockholders but of the existence of the service upon a system prostrated by lack of capital and revenue.

The legislature could have met the situation in any one of four ways. It could have allowed the railway to go into the hands of a receiver with the consequent expense, delay and uncertainties; or it could come to the aid of private management with relief from burdens and with guarantee of credit; or it could commit itself completely to the theory of public ownership; or it could take the less radical step of an experiment with public control of the railway under temporary lease from its owners. It chose the last of these courses.

WHY THE TRUSTEE PLAN WAS ADOPTED

Three factors in the situation undoubtedly had influence in bringing about this decision.

The first was the fact that the usefulness of the street railway had come to be fully understood. It was appreciated as never before that the street car is not alone the poor man's carriage but that of the public official, the man of business, the professional man—directly or indirectly the carriage on which everyone relies and for which no jitney or other kind of electric omnibus can be substituted. It must be preserved.

The second was the fact that this metropolitan railway represented an honest investment under a public supervision that had prevented excessive issue of stock or bonds and that, therefore, there was no call for reorganization to eliminate watered stock.

The third was the fact that the new capital which was indispensable to sustain this service must be obtained by buying it at market prices as other necessities are bought, in other words that investment must have its secure return.

To the legislative mind the problem for experience to solve was whether or

not a public management could be efficient, that is conducted without waste and without loss of ambition or pride in achievement. It was thought that a trial was worth while.

The basic plan for this experiment was that which I believe is the best for any street railway enterprise—a service at cost—meaning of course proper or necessary cost.

In assuming their duties the trustees took over a railway that covered 535.326 miles of track, 475.717 miles of it surface track, 30.080 miles in subways and 29.529 miles upon elevated structure. Much of the surface track was of light construction and badly worn, a large part of the rolling stock in poor repair and of obsolete type. The power plant was in process of development and repair shops and car barns utterly inadequate. The total investment in this railway system was $93,612,211.21 represented by outstanding stock and bonds in about equal proportion. The aggregate cost of the subways and tunnels under lease to this company was $35,033,506.11. The Cambridge subway was then included in the corporate property at its cost of $7,868,000 but last winter this subway was transferred to the state practically at cost and leased to the company as the other subways had been leased at construction.

MORE REVENUE NEEDED

The act directed the trustees to reinstate the railway in good operating condition. To do this additional capital and additional revenue must be immediately obtained. As a measure for providing a first installment of the needed capital the act authorized an issue of preferred stock to the amount of $2,000,000. To secure operating revenue the act directed the trustees to put in force fares that would make the service self-supporting and provided that meanwhile deficits incurred should be met from taxation in the cities and towns served by the railway, the amounts so advanced to be repaid whenever operating revenue should exceed operating cost.

The new capital was immediately used in part payment for 250 modern cars. Successive advances in fare followed. A seven-cent fare was put in effect in August and in October gave way to an eight-cent fare which after a trial of seven months also proved inadequate. At the close of the year ending on June 30, 1919, receipts had failed to meet expenses by approximately five million dollars which amount was raised by taxation in the cities and towns served.

The ten-cent fare now in force was introduced in July, 1919. Losses under it continued in decreasing amount for two months, but in September this fare began to produce revenue sufficient to meet expenses and eventually to absorb the earlier deficits so that on June 30, 1920, the trustees were able to report that operating receipts for the year had met operating costs including all fixed charges and a reserve to depreciation.

In summer months the expense for street work is always large and receipts are always smaller than in other months, traffic falling below average. These conditions prevailed as usual in July, August and September of this year. The expected operating deficit for those months was realized but unless some extraordinary event intervenes this will be readily absorbed before next July leaving at the close of this year as at the end of last year no deficit.

There is a natural interest about the effect of higher fares upon traffic. Our experience has shown that there has been a gain in total revenue but a loss in the number of passengers carried.

Under the ten-cent fare this loss at first amounted to 12 per cent of the traffic but gradually diminished to 10 per cent. To use figures the number of passengers carried under a five-cent fare for the month of October, 1917, was 32,854,047. Under the ten-cent fare in October, 1920, the number was 29,382,315.

Had there been during this time no unusually large increase in operating costs over those prevailing in the days of private management, receipts would have met expenditures at a fare considerably below ten cents. As everyone knows, however, prices had risen upon every hand at a tremendous pace. This was featured most strikingly through advances in wages. The average number of employes upon this railway is 10,000. In the spring of 1918 an advance in wages took place the effect of which was felt throughout the first year of public control. In that year a further advance took place and last year a third. The aggregate increase in operating cost on this account has been approximately $7,000,000. To-day more than half of every fare goes to compensation of employes.

The higher cost of coal has been another leading feature of increases in operating cost. Owing to a favorable contract that expired last July this advance has been seriously felt by us only during the last four months. As our yearly consumption of coal approximates 300,000 tons the additional expense this year would reach at present rates $2,000,000.

One item of expenditure is a reserve to depreciation amounting to $2,000,000. This is annually set aside from fares to provide for renewals and replacements. Proper charges to depreciation are made not to build up the property to the full measure of original investment for the benefit of stockholders, but to maintain it in good operating condition for the benefit of the public.

This means that the old-fashioned notion of maintaining a railway by hand to mouth methods with large expenditures in prosperous years and small expenditures or none at all in the lean years is a thing of the past. Sound policy to-day takes care that out of every day's receipts something is put aside to meet the wear and tear that is constantly taking place. The lack of this precaution accounts in large part for the disasters which have overtaken so many street railway enterprises.

ZONE FARES OR FLAT RATE?

Boston has a single flat fare. It is a tradition and also the profound belief of many that this distributes the population, attracting people from congested centers into the outlying suburbs and that in so doing it establishes more healthful living conditions. Many families have undoubtedly established their homes in these suburbs in the confident belief that this single flat fare would never be disturbed. But there are in Boston enthusiastic advocates of zone fares as more equitable and just in making the cost of riding proportionate to some extent with the distance the passenger is carried. The trustees are studying the comparative merits of the two systems in the light of experience in this and other countries.

Experiments have been recently made with a five-cent fare upon lines where the run is short and where practically no competition with the general ten-cent fare is involved. Some of these experiments have proved failures but two of the lines are now in successful operation.

Nothing is more idle than an attempt to compare street railway service in one city with that in another without

the knowledge that is necessary to enable one to make proper allowance for distinguishing conditions that make the service dissimilar. These differing conditions vitally affect both the kind and the cost of transportation. Take a look at the situation in Boston. The center of business is confined to a small area into and from which on an average forty to fifty thousand people daily ride upon the street cars at about the same hour in the morning and at night. The problem of furnishing proper accommodation is one that is difficult. We have here a transportation wheel with a hub becoming more and more inadequate to receive the spokes which enter it as the terminal for radiating lines. Street surface was long ago inadequate for general travel and the street cars were driven into subways. The first subway built in this country was built in Boston. The cost of constructing and maintaining these subways is borne under existing law by the car rider in rentals paid from fares into the public treasury. The exaction of this tax now means an annual payment of nearly $2,000,000 or one-half of a cent upon each ride.

This is a relic from days when tolls were exacted for the use of highways. The street car is a public conveyance operated in Boston by public officials and the subway is a public highway. The automobilist uses highways specially adapted at great cost to his convenience without contribution from him to construction expense. What excuse is there for this discrimination in his favor and against the car rider?

The investment in the Boston elevated system, including subways and tunnels, is $136,500,000. The average ride over this system is four and one-half miles while the longest distance covered is nineteen miles. The average number of passengers carried daily in 1918 was 955,245; the average in 1919 was 889,750. The average for October of this year was 947,816. The budget of expenditures for 1919 was $32,000,000. The budget for this year is $34,000,000.

Upon assuming office the trustees immediately worked out a general plan of improvement involving a total outlay during a period of five years of about eighteen million dollars chargeable in about equal proportion to capital and replacement. Substantial progress has been made toward the consummation of this program bringing with it modern cars, improved track, larger accommodation and more frequent service.

The trustees make no claim as to the success of the experiment in public control which is in their charge. One reason for saying little or nothing about what has been done is the ever present knowledge on their part that whatever it may be it is only a step toward the goal which they hope the service will finally reach.

The board is organized with chairman and recording secretary, the former assuming the duties ordinarily performed by the president of a railway and the latter those ordinarily performed by the clerk of a board of directors. Committees of two are assigned to administrative departments and report from their several spheres of activity at the stated or special meetings of the board. The trustees in this way are keeping in close touch with all matters of administration. The operating staff has at its head our general manager, Edward Dana, who was appointed to that position in recognition of his fitness for its responsibilities. The confidence reposed in him has been amply justified in what he has accomplished, and his ability, energy and untiring devotion to the work and his harmonious relations with the trustees and with sub-

ordinate officials and employes have proved invaluable.

GUIDING PRINCIPLES OF ADMINISTRATION

There are certain principles of administration that the trustees have adopted to which I will briefly refer.

Roosevelt, as we know, was fond of referring to the square deal. If men would oftener take the trouble to get below the surface of life they would find that there is something in every one that responds to the call for it, for even handed justice. It is the saving grace in the world. But we can be sure that no such thing is possible where ignorance rules instead of knowledge. Every effort then should be made to give out the truth, the whole truth and nothing but the truth with respect to all matters that are of interest to the travelling public.

Nothing hinders the approach of railway service to the standard which it ought to reach so much as the lack of patience. We all fail to exercise it. We jump to conclusions without knowing the facts; we hand in our verdict without waiting for the evidence. How can we secure patience on the part of the public? In only one way, by publication of facts. Plain and complete and frequent information makes for the sound public opinion which is the safeguard of management.

Street transportation must always be subject to unavoidable interruption. A car loaded with passengers anxious to reach office or home stops, and another car stops, and another, and another until the line is choked with cars carrying hundreds of impatient men and women. The use of every effort to let the crews and the passengers know perhaps that a truck has fallen across the track, or that a drawbridge is up, or that a rail is broken, or something wrong with the power is worth the cost at almost any price. With the information conductors can cope with the emergency and passengers will be as patient as we can fairly ask.

Financial interests are entitled to know the whole truth. Credit cannot live without frank information. If this is given credit will follow as far as it ought to follow.

Close relations should be established between management and employes. Acquaintance on the part of the men with receipts and expenditures with the reason for existing conditions and plans for their improvement and opportunity to make suggestion about them will tend to lessen indifference, create mutual confidence and awaken ambition and pride in work.

Street car service for the most part is a personal undertaking. Its standing in the community depends chiefly upon the men who operate the cars. Directors or trustees or general managers may be wise in their day and generation and yet if their wisdom fails to establish team work with their employes it will be of little avail.

Co-operation between the public and employes is vital to success. Both must contribute to it. Bad work by the employe is quickly condemned. Why not commend good work? The automobile is the carriage of the individual. The car is the carriage of a group of individuals, practically their automobile. If your chauffeur shows skill you compliment him. Why not say a word in commendation to motorman or conductor who does good work?

Everyone knows the difference between the motorman whose skill makes the journey safe and agreeable and the motorman who stops and starts his car in a way that throws his passengers about or drives it at a pace that is

disagreeable if not dangerous. Everyone appreciates the conductor who is alert, helpful and pleasant. Why should passengers refuse to heed the request he makes of them in their own interest and that of all who ride?

I have a last personal word. I have long been acquainted with the men who have had charge of the railways in Massachusetts and in New England. They have been men who are held in the highest esteem in the communities where they live. Through the stress of all these years they have kept at their posts undismayed. The record is one of ability, loyalty to public interests and unblemished honor. Nor are they unlike the men who have managed street railways elsewhere.

Under the conditions which prevail to-day we may all of us feel a new zeal, a new confidence in the success of the work at which they have labored so long. My last word then is one of optimism. But the struggle is not over. Fares are not yet adjusted. There is the fight against the jitney and the contest with the private automobile; the search for new economies to meet higher costs of operation; the effort to restore credit and inspire new confidence in capital. So it is an up grade and a long pull that lies ahead, but the street car is bound to win.

INDIANAPOLIS RETAINS THE FIVE-CENT FARE[1]

BUT REJECTS SERVICE-AT-COST

BY E. I. LEWIS

Chairman, Public Service Commission of Indiana

Your convention meets in Indianapolis, a community that believes in a five-cent street carfare. It hopes to retain it.

Those of you who have come from Portland, Maine, and Portland, Oregon, from New Orleans and the Twin Cities, and from cities between, may experience in Indianapolis the pleasant reminiscence of the good old days of five-cent street car rides. With the desertion of Cleveland, the list of places where the all but forgotten sensation of buying a street car ride with one coin—unless it be a ten-cent piece—is approaching the point of near extinction.

Delegates from Portland on the Atlantic Coast paid a ten-cent street carfare to get to the railroad station. If they stopped at any cities enroute, except New York whose five-cent fares are causing heavy deficits that cannot continue, they have paid seven, eight or ten cents for street car rides. In Boston it was ten cents, in Providence six, in Albany seven, in Buffalo seven, in Newark seven, in Philadelphia seven, in Baltimore seven, in Washington eight, in Pittsburgh ten, in Cleveland six, in Detroit six, in Toledo seven, in

[1] Editor's Note: At the time of the National Municipal League meeting in Indianapolis, there was pending before the Indiana Commission, as commented on by Mr. Lewis in his address, a petition of the Indianapolis Street Railway Company for a two cent transfer charge. This petition was acted upon December 18, 1920, and a one cent transfer charge was granted, the five cent basic fare being retained. The question of retaining or increasing this charge in the future will be answered in accordance with the anticipated changed conditions affecting both costs and revenue during 1921, as their effects are discerned.

Columbus six, in Cincinnati eight cents.

Those coming from Portland on the Pacific Coast paid eight cents to get to their station. If they stopped off enroute they paid a ten cent fare in Seattle, in Tacoma ten cents, in Spokane six, in San Francisco five, in Los Angeles five, in Salt Lake seven, in Denver six, in Topeka eight, in Omaha seven, in St. Paul six, in Minneapolis six, in New Orleans eight, in Louisville five, in Kansas City eight, in St. Louis seven, in Milwaukee seven, in Chicago eight cents.

On July 1, 1920, I do not have the numerous changes upward since that date, if you had stopped off for a street car ride in any one of 69 municipalities, including such cities as Boston, Pittsburgh and Seattle, you would have paid ten cents for a street car ride; if in any one of 32 cities, eight or nine cents; if in any one of 178 cities, seven cents; if in any one of 176 cities, six cents; and, generally, there would have been extra charge for transfer or for continuation of ride from one zone into another zone. To-day 600 cities have street car cash fares in excess of five cents.

While discovery of a place where one can actually buy 18 miles of riding for five cents is notable, it is not as remarkable as the discovery that the company is solvent and full of hope. Returning confidence in its future is indicated by higher bid prices for its securities.

On July 1, 1920, there were 118 companies, with a total of 7,820 miles of track in receivership. Since July 1 there have been a number of receiverships added to this depressing total. Other companies, some of which have exhausted possibilities of eight- and ten-cent fares, are showing hopeless tendencies. Fifty-six of those 118 receiverships occurred between June 1, 1919, and July 1, 1920. Obviously the departure from the five-cent fare has not been a complete success. As an institution the street railroad has the pallor of bankruptcy.

A great deal of attention has been directed to rehabilitation, or one might say resuscitation, of the national system of steam railway transportation. Our congress has given its best efforts to that solution. Important as is the problem of the steam railroads, the fact remains that while they transport approximately one billion persons annually, the street railways transport fourteen or fifteen persons to every one carried by the steam roads.

The day is past when financial distress of the street railway industry could be looked on as being only of concern to the industry. The growth of cities is, as never before, insistently demanding money for extensions. The fact that the voice calling for that money generally does not inspire confidence constitutes one of our most important municipal problems.

THE COMPANY'S ATTITUDE TO THE FIVE-CENT FARE

When I was invited to appear on your programme it was to speak on "The Success of the five-cent fare in Indianapolis." I suggested change of title to "The Five-Cent Fare in Indianapolis." That does not imply that the five-cent fare has not been a success, but I believe that no one should speak of accomplished success until the war's readjustment period is past. We hope, and there seems to be good reason to expect, that two or three years from this time Indianapolis, when called on at one of your meetings, can respond to the toast "Indianapolis, the Five-Cent Street Carfare City." I proceeded after making the change in title to block out what I would say. Since then, however, a changed condi-

tion has come. The local street car company, by formal petition, has come to the Commission saying that the frenzied price raising in coal has caught it and reversed, with the beginning of fall, the favorable financial showings made up to that time. The company is asking for temporary relief, a transfer charge and readjustment of payments by interurban companies for trackage and terminal facilities, to tide them over this coal crisis.

The significant feature of the petition, however, is that there is indicated no desire for a higher basic fare than five cents.

What can be more remarkable than the experience of a public utility commissioner having gentlemen who two years ago sat on the front steps bemoaning the denial of a six-cent fare petition, coming around and saying "We need some temporary relief to get us past the exorbitant coal price era, but we want to hold fast to this five-cent fare."

These gentlemen are not in business for pleasure. They are intent on making money—a most commendable policy for public utilities notwithstanding occasional short-sighted comments to the contrary. Why do not these gentlemen who now say a temporary emergency faces them, petition for a six-cent fare? Because they have experienced a great awakening. It may all prove to be a mistake, but they now are of the opinion that a higher basic fare than five cents, at least in Indianapolis, would result in cutting down the most profitable part of any street railway company's business—that is, the short-haul patronage for which there is always the potential competition of that patronage's own legs, as well as the appeal of jitneys.

Facing the fact that within two weeks, I shall sit as one of the judges in this matter, I may not, with propriety, go into some details that you might desire. However, I am entirely free to summarize the historic background of low fares in Indianapolis. From my angle of view it covers the substantial and fundamental phases of the subject. It is not necessary to go further back than the year 1918 when, on a decision of the supreme court of Indiana, the Public Service Commission assumed jurisdiction and eliminated fares of less than five cents. In December, 1918, the company came to the Commission for a six-cent fare. The Commission rejected the plea chiefly on four revelations that resulted from public hearings.

WHY A PETITION FOR INCREASED FARE WAS REFUSED

The first revelation was that the company was not collecting its earned revenues. The Commission reached this decision as a result of putting trained checkers on the cars. Their presence was not suspected. Officers of the company had testified that losses of earned revenues did not exceed 2 per cent, and were more nearly 1 per cent. The Commission's inspectors showed a loss of 13.6 per cent on cars checked during a six day period. The Commission held that "It is futile to provide increased revenues for petitioner if it does not collect revenues already provided." The introduction of pay-as-you-enter cars was the result of this investigation and decision.

The second revelation was that the value of petitioner's property did not warrant its financial obligations. The company presented an inventory and valuation totaling $28,634,210.83. If the Commission had ever let that valuation get by, Indianapolis would have been paying a seven-or eight-cent fare. I am very certain that officers of the company now will agree that the

financial outlook under such conditions would not be as favorable as it is now. The hearing revealed values only a little in excess of half the twenty-eight million six hundred thousand dollars. No one, except local taxing officials, who have assessed the company at almost twenty million dollars, is now claiming a value in excess of $16,000,000 or $16,500,000. When a service-at-cost proposal was laid before the Commission this year the city and company practically agreed to a valuation of $15,000,000.

From the date of its decision, the Commission has had the co-operation of officers and various groups of stock and bond holders in working out a voluntary reduction of obligations to a proper basis. A superimposed holding and operating company, the Indianapolis Traction and Terminal Company, was eliminated. Four million dollars of common stock for which there was no substantial background was wiped out, and two million one hundred and eighty of interest bearing bonds, held in sinking funds, were cancelled, thus reducing securities approximately $6,180,000. Also $1,000,000 of stock was made junior to such an extent that it cannot be considered a liability. Securities were thus reduced approximately 30 per cent. Indianapolis Street Railway stockholders who had been slumbering in comfortable berths with the assurance of guaranteed stock dividends, were called forth to operate their property and to assume the hazards of preferred stockholders.

The third revelation was of a device that was not uncommon in the profitable days of unregulated street railroading. This device was a sinking fund for the retirement of bonds. The street car riders were not only to guarantee dividends to a non-operating company, but were also to wipe out the bonded indebtedness. One hundred twenty thousand dollars annually was going into this sinking fund. Also, the bonds which, it would seem, should have been annually retired were continuing to draw interest. Payments to the sinking fund, and payment of interest on bonds held in the sinking fund, were amounting annually to almost $200,000 of money that was badly needed for property and service.

When the Commission pointed out that this plan, simply analyzed, meant that the public was placed in the position of giving to the company not only sufficient fares to maintain and operate service, but also ultimately to give the company its property, and that such a plan was not at all consistent with regulation which, for emergency relief, the company was seeking to come under, there again was fine co-operation on the part of the bond and stockholders and officers. At least temporarily the sinking fund provisions are waived. Most advantageously to all concerned, the waiver provides that this money go into betterments. This means better security for bond and stockholders; better service for the rider.

The fourth controlling revelation was that the community was drained dry of its young men, who were among the 4,000,000 away to war; that the absence of this vital part of the population, together with the absence of many young women and the depressions of war, had very nearly stopped social activities; that influenza epidemics, sweeping the nation, had all but suspended local shopping, theatre and moving picture traffic; and that locally industrial activity was not normal.

The Commission, in its denial, took all these conditions into consideration. It accurately forecasted reassumption of normal life and greater traffic. The change came with a rush. In 1918

the Indianapolis street cars transported 70,003,795 revenue passengers; in 1919 the traffic jumped to 84,051,850 passengers; in 1920 it will probably pass the 94,000,000 mark.

Briefly then, in answering to my subject "The Five-Cent Fare in Indianapolis," I would summarize by saying that its foundation lies in:

(1) Elimination of unwarranted financial obligations;

(2) Elimination of a holding company—and, incidentally, the elimination of absentee landlordism;

(3) Awakening to the fact that the short haul passenger is the profitable passenger;

(4) Collection of earned revenues;

(5) Taking into calculation subnormal traffic conditions in the war period and correct forecasting of increased volume of traffic after 1918.

(6) A healthy spirit of co-operation;

(7) An intelligent handling of the whole situation by the city;

(8) Better public relations.

ADVANTAGES POSSESSED BY INDIANAPOLIS

It is true that there are other conditions which contribute fundamentally to make it possible for Indianapolis to be, when the readjustment is past—"The Five-Cent Street Carfare City." These advantages are geographical and social.

The street car company mines a large amount of its own coal in fields located near to Indianapolis and this means cheaper fuel costs than those faced by most companies. Wages and cost of living all through the war period have been at somewhat lower levels in Indianapolis than those prevailing in the zone of greatest war activities and excesses which reached back from the Atlantic seaboard through Buffalo, Pittsburgh, Youngstown, Cleveland, Detroit, to Chicago. This applied to street railroading. Now, that the national period of readjustment has come, it is naturally to be presumed that this area will be least and last, affected.

When the company came to the Commission its plea was that it was at bankruptcy's door. Its tracks and pavements were in bad condition; the condition of its rolling stock was aggravatingly proclaimed by flat wheels; its finances were such, it was represented, as not even to permit the installation of rather inexpensive fare collecting boxes, or pay-as-you-enter equipment; its operating forces were not good; four much needed extensions were not forthcoming.

There are, of course, critics and the impatient. Everything that is desired has not been accomplished. Cars are crowded during rush hours. But those who will stop to survey the situation, must agree that, under the reorganization, with a five-cent fare and universal transfer, and in face of the most adverse conditions the country has ever known, there has been in the short period of two years a decided change. All cars have been made pay-as-you-enter; new cars have been purchased and open cars have been converted into closed cars, and some of these are of exceptionally good type; the operating force is of higher standard; flat wheels have disappeared and general maintenance has greatly improved; three of the four extensions, the College avenue, the Shelby street, and the Premier motor car plant extensions, have been made, and the fourth, the Illinois street extension, is scheduled for next spring, unless the world upsets again. During this period the city has done a great work in street reconstruction and the street car company is struggling along with that.

No one would presume to say all things are 100 per cent good, or even 90 per cent good. I am, however, asking you who live in six, eight and

ten cent street car cities and who have well in mind what your own cars and service and extension inadequacies are, do you really think there is very substantial ground for complaint from the five-cent car riders of Indianapolis or the city itself?

I desire specifically to disavow any intention of saying that continuation of the five-cent fare would have been possible for all companies and cities. I am fully aware that it could not, for it has been our duty, as a public service commission, to put higher than a five-cent base fare into six Indiana cities. I do believe, however, that many cities did not try out the possibilities of the five-cent fare.

Looking at the street car situation nationally, it appears that the peak has been reached in operating costs, and that the break is near at hand. Still the skies are not clear. Industrial letting down will likely increase any baneful effect of high fares which may fundamentally, but not now obviously, exist. High fares are not going to get some street car companies past the sheriff for the reason that there have not been fundamental readjustments of financial obligations and elimination of needless superimposed operating companies.

The aftermath of the war also is generally marked by heavy increases in local taxation. Papers last week announced the inauguration of the six-cent fare in Cleveland and gave as one of the reasons for the increase, at a time when prices are falling, a $150,000 increase in local taxation falling on the company. In Indianapolis at just the time when we began to look on favorable operating sheets the same burden fell.

The whole subject of taxation—direct and indirect—of the conveyance of the masses of urban population loudly cries for careful study. Direct taxation, franchise tax and paving streets will, during the coming year call for almost eighteen per cent of the fare paid by Indianapolis street car riders.

I would make a general observation that is applicable to the Indianapolis situation: When the water has been squeezed out, and securities represent, and are warranted by values of property put to public service, those financial obligations must be protected. Occasionally the shortsighted demand that these legitimate demands be passed or deferred.

Laying aside all moral considerations what—especially to-day when all the world wildly is bidding for money for rehabilitation—can be so detrimental to a community as such a course?

Indianapolis is typical of all cities. It is growing with marvelous rapidity, ten per cent every three years. Street car lines must be extended so it can expand. More and better cars must be provided to carry more citizens. More power house capacity must be had to move these cars. The chairman of the board of works of this city says that $1,500,000 to $2,000,000 must be spent by the local company next year to keep transportation apace with city growth. In this and all other cities, such heavy expenditures must constantly continue year after year. The great need of the street railway industry is credit.

Where is this money to come from? From security holders who are unfairly dealt with? From bankers and other custodians and trustees of money who see legitimate obligations ignored? Or are the cities in a position to furnish the capital needed to keep local transportation abreast with their growth?

SERVICE AT COST

In April this year, the city of Indianapolis laid before the Commis-

sion a service-at-cost plan. It was designed to strengthen the credit of the local company. Officers of the company were most favorable to the plan. Most of the members of the Commission thought that at last the formula for the solution of the local street railway problem had been offered. I was enthusiastic. Mr. Samuel Ashby, corporation counsel for the city, had made a study of the Cleveland, Montreal, Boston and other service-at-cost plans that—especially the Cincinnati plan—had been nationally proclaimed as being the latest and best thought. He had particularly studied the great problem of inspring incentive and initiative in the operating company. His plan incorporated—and I believe improved upon—the Cincinnati idea of giving the company higher return for lower fares. Efficiency was to be rewarded by maximum returns; inefficient operation was to be penalized. The plan suggested just what rate of return should apply to each step of fare. Mr. H. H. Hornbrook, attorney for the street car company, thought, with possible minor changes, the plan was good.

It was agreed that it would be well personally to make the rounds of some of the nearby service-at-cost cities for the purposes of picking up suggestions and perfecting the plan so that when it was put into effect "The Indianapolis Service-at-Cost Plan" would supplant the Cleveland and Cincinnati plans as a national model. With high spirits we began our journey—Ashby, Hornbrook, and myself—all service-at-cost advocates. We did not limit ourselves to interviews with the companies, or the cities. We checked statements of one against the other, and then made independent investigations. It was not long until we began to be less assured that we had found a panacea. We came home to think it over. It was mutually agreed to wait until business trips carried us, individually, within striking distance of more distant points for further investigation. In the meantime the Commission was being subjected to criticism, together with some hammering, for delaying the adoption of service-at-cost. The term had, as usual, made its popular appeal.

After the three friendly investigators had come to a unanimous decision there still remained different points of view among the public service commissioners which, with sickness, resulted in further delay. The first of this month Mr. Ashby, author of the original proposal, filed with the Commission a motion to withdraw it. The company did not object. Recently the Commission, without a dissenting vote, acted in the affirmative on the motion. In his motion for withdrawal Mr. Ashby says:

> We have been unable to find or agree upon any plan of operation on the basis of service-at-cost which would furnish the incentive of private ownership in an operation of service-at-cost. The result of our investigations generally has been to raise a most serious question and doubt as to the wisdom of the service-at-cost plan. The inevitable tendency seems to be for the operator or company readily to accept increased cost of operation with the view that it can be passed on to the public by higher fares. Such a course results in only adding to the burden of the public.
>
> Experience has demonstrated that any increase in fare above the normal fare, results in a very substantial reduction in the number of passengers carried, and has a tendency at the same time to increase the cost of operation, so that the financial results of the company under such a plan is unsatisfactory and in some cases disastrous.
>
> The experience of Cincinnati is a good illustration of the operation of the plan. The fare was increased from five cents to six cents and from six cents to seven cents, and from seven cents to eight cents, and during the comparatively short time in which the plan has been in operation the company has accumulated a

very large operating deficit of over $2,000,000. During practically the same time the Indianapolis Street Railway Company has been operating under the emergency order of the Commission at five cents. It has been able, as heretofore stated, to operate without a loss, its revenues have been more than its operating expenses and sufficient to pay a reasonable return on the fair value of its investment.

I have little to add to his brief summary. The Commission does not pronounce the verdict of nostrum on service-at-cost, nor dogmatically cast it out of all future consideration.

DANGERS AHEAD

It must, however, be confessed that it is suspicious of it. We, at least, will wait to see whether it proves to be panacea or nostrum. Personally, I am apprehensive. I have heard popular acclaim of other epigrammatic panaceas. "Let the people rule" gave us the direct primary which seems not to have met all the expectations of its friends, or the expectations of all of its friends; "cost-plus" has been repudiated; "he kept us out of war," only won an election.

The remarkable thing to me is that service-at-cost did not appeal to every one. I recall numerous adverse comments. One is sufficient. When the hammering of the Commission to "save the company" by adopting the service-at-cost proposal was at its height, an elevator operator said to me "What is the Commission going to do, Mr. Lewis?" I replied that I did not know. His answer surprised me: "Service-at-cost is the limit—put that in and the company can do anything and charge it up to the riders." My elevator operator hit on the head one of the chief defects, and one which it seems to me is fundamental.

For example: Coal is hard to get and the price is very high. A service-at-cost street car operator who already, as in most places, finds it impossible to earn the maximum return and is assured of the minimum which will cover fixed charges, is called on by a representative of a coal company. He has plenty of coal for sale—good coal at that. Why should this street car executive worry about its price? Why should he join in the night and day scramble of other public utility operators who do not have his sinecure, and who are struggling to get coal for a low price in order to pull them through and give their people some return on their investment? It is true that they may be able to buy coal at $4.00 a ton, but here is coal offered to him in his nice warm office at $6.00. It goes into operating costs. All right—service-at-cost covers all operating costs. I fear that service-at-cost simply means that the lid is taken off.

It is possible that some time in the future some workable plan incorporating incentive for efficiency and initiative will be worked out. While the Commission does not pass finally on service-at-cost, nevertheless it seems to most of us to run contrary to human nature, which, at least in business, requires opportunities of a struggle for gain. Psychologically, the blocking out of rates which shall apply if operating expenses increase, threatens to become an open invitation for laxity.

There is still another possible defect. Service-at-cost is closely connected with city halls. Quite often city halls are closely connected with political organizations. Again, quite often political organizations are connected with various interests. When one ventures into the field of speculation of what may happen to service-at-cost after the novelty wears off, and after changes in management supplant men who may have pride in keeping their plants

up and their operating costs down, one finds that the possibilities rival those which have brought cost-plus into disrepute.

It is possible, for example, that a coal operator, standing in with a highly politicalized city hall crowd, could obtain a contract for supplying coal to the service-at-cost utility at a price considerably in excess of a fair price. It is possible that real estate developers, operating through such a city hall, could cause the construction of losing lines to their projects. A tie between a political machine and the street railway would open the door to every sort of a demogogue and agitator. These are only a few of the possible diseases that may attack service-at-cost in its maturity. I do not believe that, up to this time, they have developed to any great extent. I sincerely hope they will not develop.

During the last campaign we have seen, notably in New York and Chicago, the street carfare made the football of politics. My inclinations—I am not saying that they may not be wrong, but nevertheless they are my inclinations reached after a study of public utilities on four continents during a period of twenty years—are that it is very desirable that public utilities be removed just as far as possible from the very conditions which I fear service-at-cost invites.

I strongly believe in the policy of delegating regulation to men who will give their time and best thought to the subject and who are selected because of fitness for their work, and to the removal of such supervision and regulation from too close contact with local influences and prejudices, which we know by experience are sometimes narrow, blind and dogmatic. Such regulation permits of the accomplishment of those things enumerated herein, which have resulted in both the five-cent fare and solvency of the street car company in Indianapolis, and in Indiana, while all around are higher fares and wreckage.

As a final thought, the theory of regulation of public utilities is service-at-cost. Regulatory bodies determine rates by making them only sufficient to cover:

1. Operating costs.
2. The replacement of the wear and tear of the plant—depreciation.
3. Taxes—but not individual income taxes.
4. A fair and reasonable return upon the fair value of property used and useful in performing the public service.

When you have based your rate on those foundations you have a service-at-cost.

In behalf of such control, I would point to the fact that not one of the 118 electric railway receiverships in the country is in Indiana; that only six of the 600 cities having more than a five-cent fare are in this state, and that the electric railways in this state emerge from the trying ordeals of the war period and the more trying ordeals of the post-war period, solvent and full of hope.

CLEVELAND—SERVICE-AT-COST AND EFFICIENT MANAGEMENT

BY FIELDER SANDERS

City Street Railroad Commissioner, Cleveland

On Sunday, November 14, 1920, the rate of fare in Cleveland was automatically raised, under the Tayler "Service-at-Cost" grant, to a six-cent cash fare, nine tickets for fifty cents, one cent for transfer and no rebate. No objection was made by the city, because the stabilizing fund being below $300,000, under the franchise the company had the absolute right to raise its charges. The fare on March 1, 1910, at the inception of the Tayler grant was three cents cash, five tickets for fifteen cents, one cent for transfer and no rebate. It is, therefore, the fact that after more than ten years of operation under the Tayler grant, the fare paid by the car riders has almost doubled, the exact figure being the difference between 3.33 cents, the average fare paid in 1910 in Cleveland, and 5.90 cents, the average fare which will be paid under the present rate, an increase of 77 per cent.

This makes an examination of the franchise and a survey of the operation of the railway company, thereunder, peculiarly fitting at this time in determining whether service-at-cost has been a success or a failure, or to what extent it has been either. In my judgment it has certainly not proved a "*Nostrum*," "a quack medicine," but possibly has not quite approached a "*Panacea*" or "an absolute cure for all ills."

The street-railway situation in Cleveland for many years prior to 1910 was that of operation by private companies with the usual competition, and five-cent fare, with a slightly reduced ticket rate. These companies consolidated, the fare remaining at five cents on all lines, but with added transfer privileges for which no charge was made. This was followed by a bitter fight on the part of the city authorities for a lower fare, which after much warfare culminated in the present settlement. At the time of the adoption of the franchise, as for many years before, the car-riders were paying five cent fare, eleven tickets for fifty cents with universal free transfers. It was claimed that, under proper management, with the proper franchise, the car riders could be carried for three cents. As a result of all the dickering back and forth it was determined that the car riders should not be carried at five cents nor at three cents, but at actual cost, whatever that might prove to be. The conclusion, therefore, of success or failure of the plan, must be predicated upon the purposes which the plan was intended to carry out, and be a finding as to whether those purposes have been carried out.

The franchise boldly states in its preamble an ambitious programme, to wit:

> It is the common desire of the city and the company to have all the grants of street-railway rights then outstanding surrendered and renewed upon terms thereinafter recited, to the end that the rate of fare may be reduced, the transfer privileges made definite, and the right of the city as to regulation and possible acquisition made definite and certain, and that a complete readjustment of the street-railway situation should

be made, upon terms that would secure to the owners of the property invested in the street-railway security as to their property, and a fair and fixed rate of return thereon, at the same time securing to the public the *largest powers* of regulation in the *interest* of *public service*, and the *best street-railroad transportation* at cost, consistent with the security of the property, and the certainty of a *fixed* return thereon, and no more.

It will not be claimed by anyone that any of these declared objects of the franchise is or was anything but desirable and laudable, except that possibly, in view of the developments of the last two or three years, some may claim that a fixed rate of return, and no more, is not now in the best interests of the company and the public. I will refer to this particular claim again. It will also be admitted that, if these objects of the grant have been substantially carried out, a great civic benefit has resulted.

The questions therefore before us are, Has the rate of fare been reduced, the transfer privilege made definite, the city's regulation effective? Have the owners had security for their property, and have they had a fair and fixed rate of return, have the car riders had the best street-railway transportation at cost? If so, *how* has it been done, and *what is there* about the franchise, or the management, or the surrounding circumstances that has made such a conclusion possible?

ARBITRATION BOARD ENDORSES TAYLER GRANT

The question of the failure or success of a contract is ordinarily determined usually by the facts themselves, but sometimes by the opinion of experts who have gone over the facts and have drawn conclusions therefrom in the light of testimony and their experience. I desire to present in evidence an opinion first, which combines the two methods. During the last half of the year 1919 and the first half of the year 1920, the city of Cleveland had a very lively controversy with the Cleveland Railway Company to determine the question whether the fixed return of 6 per cent provided in the original franchise should be changed to 7 per cent. This finally developed into a popular vote at a referendum, which resulted unfavorably to the company, as such matters usually do when placed before the public. But in the middle of the controversy a very extended hearing was had before a board of arbitrators.

This board of arbitrators went into the financial condition of the company and all matters surrounding it very thoroughly. The hearing consumed many weeks. Financial and street-railway experts from all over the country testified, both in behalf of the city and in behalf of the company. The city lost the arbitration so far as the 7 per cent question was concerned, but in the decision of the board, the franchise, the management of the company and the actions of the city in its regulating capacity received a very illuminating commendation. The board said:

> The franchise and the amendments thereto have been shown by ten years of trial to be *sound in principle, practical* in operation, and of great benefit to the Cleveland Railway Company and its stockholders and *to the public.* It has kept the Cleveland Railway Company from exposure to the dangers and misfortunes that have overtaken other railway properties in most other large cities. The protective features of the franchise, together with the high standard of railway management and intelligent municipal supervision which the Cleveland Railway has had, have resulted in giving to Cleveland the best street-railway service at the lowest cost of any city in the United States. The testimony has taken a wide range. . . . The city street railroad administration has always been efficient and keen to the public interest, and there is no reason to believe that it will be otherwise in the future. . . . The evidence shows that this

railway property has been maintained at a high standard, that it justly enjoys the reputation of being the best managed, best equipped and most successful street-car enterprise in the country. We have been shown that a higher percentage of expenditure for maintenance and upkeep has been in force here than in any other cities. Experts have analyzed the situation and presented the conclusions to us, that by reason of efficient and intelligent executive management, and by reason of the high rate of upkeep and maintenance, a large appreciation in the value of the property has resulted. . . . The most important result of this hearing is the full and complete illumination of the question of the safety of the Cleveland Railway stock as an investment. A right understanding of the franchise discloses that the stock of the Cleveland Railway Company is safeguarded and protected so as to become a quasi-municipal investment. . . . We have no difficulty in reaching the conclusion that this stock is protected and safe to the investor. . . .

This was the decision of an unbiased court on the facts before it.

THE TESTS OF FARES AND SERVICE

Let me now briefly examine the *facts* themselves, of ten years of operation, to see if they show that the franchise has carried out its objects, if this particular service at cost has made good. Considering increased fare first, the objection that the fare has almost doubled under service at cost might be dismissed with the statement that every other commodity has doubled in price in the last ten years, and that it is only in accordance with the general economic trend of the last ten years that the price of a ride in Cleveland is now almost twice what it was in 1910. The wages of the trainmen operating the cars, for instance, have increased 188 per cent since 1910.

But if that alone were said, we would be justified in concluding that the franchise has not been a moving factor in improving matters, but has simply ridden with the general trend of events. The fare at its inception was about two cents lower than the fare in other cities through the country, with one or two possible exceptions; it has stood through the years at the same ratio to rates general elsewhere, and, notwithstanding this last raise, it is still lower than most, and possibly still at the same ratio to the fares in other cities. One tremendous result of this low fare in Cleveland not to be forgotten is the fact that its car riders in eight years between 1910 and 1918 have saved more than thirty million dollars, over and above what they would have paid if the fare had continued to be five cents under the pre-existing private management as in other cities; or, in other words, they have saved for their own use an amount which, if it had been put in a sinking fund, would have purchased all of the railway company's property in September, 1918. From the public's standpoint, this one fact alone has justified the Tayler franchise.

But that fact is only the more obvious of results obtained for the car riders. Examining further, notwithstanding the low price of our service, statistics show that from 1910 to 1920, while the population in the city and suburbs increased 40 per cent and the number of fares paid increased 75 per cent, the service given in Cleveland has doubled. The Broadway, Euclid, Payne and St. Clair lines east of the river, and the Lorain and Detroit lines west of the river, the six heaviest trunk lines of the system, show in their headways that during 1910, in the morning rush period, 7,790 seats per hour were furnished; 3,192 seats per hour on the base tables and 9,690 seats per hour in the evening rush period. The present headways on the same six lines furnish 15,700 seats per hour in the morning rush, 5,590 seats hourly on the base tables and 19,300 seats per hour in the evening rush, an increase of 102 per

cent in the morning rush, 75 per cent on the base tables and 99 per cent in the evening rush. I am giving seats rather than headway because of the difference in the equipment.

The number of passenger cars has increased from 955 in 1910 to 1,515 in 1920. Great changes in the character and size of the cars have been made. The average seating capacity of the old cars was about 38; the newest cars seat 58 and 60. The total seating capacity of the 1910 equipment was 36,100, of the 1920 equipment 74,800. The total standing capacity was 44,000 in 1910; in 1920 it is 80,460. So that while the number of cars has not doubled, the seating capacity has *more than doubled*, and the combined seating and standing capacity is *almost double*. In these ten years 375 of the 955 cars owned in 1910, nearly 40 per cent of the total, have been retired, so that there are now on the system, of 1,515 cars, only 580 that are more than ten years old.

In the same period of time, the company has developed a large number of additional lines within the city (a smaller number outside). In 1910 the railway operated 246 miles of track, exclusive of special work, track in car yards, etc. Today it operates 303 miles, an increase of 23 per cent. Most of this increase is in new trunk lines and new cross-town lines within the original limits of the city of Cleveland, although some of it represents pushing out into the country. In addition almost the entire layout of car houses, shops and power stations has been completely renewed. Many new most modern car stations have been built. The various power-generating stations have been abandoned, except one, which is on the programme for dismantling in the near future. Power is being purchased, and many new substations have been built or are under way for distributing purposes. The finest street-railway shops in the world have been built, at a cost of $1,300,000. The company has developed in the last three years an extensive plant for handling materials in its maintenance-of-way yards, and has added all kinds of improved conveyors, trucks and labor-saving machinery for doing its work. The 935 cars added to the system since 1910 have been in each instance of the latest and most efficient type, some of them built in the shops of the company by direct labor, others purchased. Of the original 246 miles of track existing in 1910, 162 miles have been renewed, about 66 per cent of the original trackage, and the average age of all the present tracks on the system is very close to nine years. The number of cars owned per mile of track has increased from 3.9 in 1910 to 5.05 in 1920. The fare remained at 3.33 cents until December 15, 1917, and since that time has been at varying rates, most of the time 5.33 cents.

It is apparent from the foregoing brief summary, without going into detail, that the fare has been low, the service has been high, and that the property has been well kept up and highly improved, under service at cost a real railway has been developed, to an extent so noticeable as to merit and receive the commendation of every street-railway man who surveys it, and so different from practice general elsewhere that many public addresses on this subject have summarized it by saying, "The railway has grown from a scrap heap in 1910 to the finest property in the United States in 1920."

ARE ALL PARTIES SATISFIED?

Another and third way of testing whether a contract has carried out its purpose, in addition to the opinion of experts and the actual facts hereinbefore detailed, is to analyze the effect

which the contract has had upon the parties interested, with particular reference to their conduct under and general satisfaction with the contract. Satisfaction with an arrangement by all parties to it does not always prove that the arrangement is a good one calculated for their mutual advantage, but satisfaction with an arrangement after a thorough trial over a period of years, after an exposition and public demonstration of claimed defects, is proof of the inherent soundness of the contract.

The Tayler franchise has been criticized at various times because of the so-called lack of incentive in it, and possibly on lack of other matters, although no critic has ever been able to frame a franchise which in practice has worked better. I have at times made the same criticism myself. But notwithstanding the criticism, the people of Cleveland are satisfied. We know that to be so, because it happened that the first period of the grant expired on May 1, 1919, and it was necessary before that time for the city government either to renew the franchise for a further period of twenty-five years, thereby extending the expiration date ten years, or to permit the property to continue in the hands of the company without city control of the service, or to exercise its option to buy it and put in force municipal ownership. A series of meetings was held in the city council chamber over a period of six or seven weeks by the committee of council having the decision to make. The matter was widely advertised in the newspapers, and especially the fact that the grant was about to run out. Nevertheless, all the amendments that were offered to the grant as being desirable were suggested by the city street railroad commissioner. There *was no public sentiment manifested for municipal ownership*, or for any particular change in the grant, except on the part of a few councilmen and a few public officials who had been in very close relationship with the railway company and its day to day operation. No amendment was offered by any civic society of Cleveland, of which there are many and active, nor any newspaper, nor by the chamber of commerce, or any of the various clubs interested in public matters. The railway company refused to accept the amendments, said that it was satisfied with the franchise as it stood. It became immediately evident that the public also was satisfied with the franchise and the service under it. The result was that the council renewed the agreement in identical terms for a further period, and we are now operating thereunder.

THE SIX PER CENT FIXED RETURN

There is one serious problem now pending, arising in connection with the fixed return of 6 per cent for the stockholders,—a problem which is entirely likely to face the operators of the various new service-at-cost franchises, now being adopted. It is the difficulty of finding new money with which to finance extensions, betterments and permanent improvements. Extensions in Cleveland have always been financed by the sale of new stock. For more than a year it has been impossible to sell Cleveland Railway 6 per cent stock at par in Cleveland, and the franchise forbids its being sold at less than par. The fate of all public utility stocks has been largely reflected in the market on Cleveland Railway stock, through no fault of its own. The management of the railway made an effort to raise the dividend rate on all their stock to 7 per cent, and failed at a popular vote. Although extensions are needed in Cleveland, the people evidently thought the 7 per cent remedy too drastic and

far-reaching. So for the present we are standing still—just finishing the programme laid out a year and a half ago. Many solutions for the future needs of the company and city have been suggested and debated, and I have no doubt the problem will be worked out satisfactorily in a mutual spirit of co-operation, as have so many of our previous difficulties.

THE SUCCESS EXPLAINED

The question now arises, What is the reason for the obvious success of this plan? There are many reasons. The low capitalization at which the railway was taken over has had some effect, of course, but that effect has been very largely overrated. The added expense of a few millions to its aggregate capital value, with a return of 6 per cent thereon, distributed among the number of fares paid would have made an increase in the rate of fare so small as to be hardly noticeable. It would be expressed in tenths of a cent, less than a mill a ride. At the beginning of the grant, an addition of ten million dollars to the capital value would have made a difference of only three tenths cent in each fare paid, and this, of course, would have decreased each year since. The low capitalization was *far more effective in developing public confidence* in the honesty of the management and in the honesty of the arrangement than in any financial way. The whole secret of the success of the scheme has been the admirable combination of efficient and jealous management of the part of the company and its officials, of close municipal supervision, of harmony between the company and the public, of the confidence which the public has in the arrangement, and the ultimate fact resulting from all of these, that the company is financially strong, and able, up to a short time ago, to market any amount of its securities with which to carry out the object of the street railway. All of these have been deciding factors in the success of the plan.

THE CITY'S PART

The city, through the council and the commissioner's office, also guards its rights carefully. It maintains a complete department for the supervision of the company's expenses of all kinds. It prescribes the quality and quantity of service. In the commissioner's office a traffic department maintains, through a large force of inspectors, a continuous check of the traffic loads on the various lines of the city, and from time to time makes changes in the headways, in the running time, and in the cars on the various lines to more closely balance the service rendered with the service required. It makes all the studies and investigations for determining any changes necessary. The results are tabulated, and graphs are drawn showing the necessity or non-necessity for any changes. Changes are being made almost daily by orders to the company to put in force new headways and new schedules. In so doing the commissioner is able to tell from day to day whether the schedules which he prescribes are being run, and to see that the company does no more nor less than run the service prescribed. The traffic department also makes the seasonal changes due to the closing of parks and the opening and closing of factories, makes the changes in places of stopping necessitated by new conditions, makes changes in routes necessary to relieve congestion and to speed up service, and also advises with the operating department daily in the collection of fares, loading and unloading of passengers, the stationing of men to sell transfers outside the cars, the pre-

payment areas, and all the details which make for excellency of service. The street railroad commissioner's office, also, through its engineering department, keeps close supervision over the cost of improvements, renewals and ordinary repairs, and approves them in advance of expenditures. Not a bottle of ink is bought without the city passing on it and approving it first. In those matters we not only authorize and supervise the railway company from day to day, but we also advise with its officers and suggest changes and improvements. We maintain a day to day continuous audit.

THE RAILWAY'S PART

The railway officials have also had at heart not only the preservation and development of the property, but pride in themselves as successful managers. They have co-operated in every way in increasing the efficiency of the service. They have largely initiated a great many of the reforms which have made Cleveland street-car service a model of the country. They have adopted and carried out many of the suggestions made by the city. The result has been the employment of almost every new idea in street-railway operation, usually some years in advance of the rest of the country, such as the skip-stop, the speeding up of schedules, short-routing, cross-town lines, prepayment areas, pay-enter and pay-as-you-leave fare collection, the most modern—the-pay-as-you-pass—street car; the purchasing and distribution of power instead of costly generating plants; modern car shops, car stations and automatic power sub-stations; scientific and exactly sufficient schedules of service, the last word in maintenance-of-way, equipment, materials and yards, labor-saving machinery of every kind, the scientific training of employes in a separate school and department equipped with machinery and instructors for that purpose, careful and strict discipline of the employes; in short, most of the advancements and improvements in street-railway management of the last ten years have originated or been tried in Cleveland. The peculiarly close combination of company management and city supervision has enabled Cleveland to devise and put in force every possible economy which tends to efficiency.

DOES THE PLAN LACK INCENTIVE?

I think that most of the criticism of the service-at-cost plan as developed in Cleveland in the last ten years, as to the lack of incentive, is really directed at the conditions of the franchise and not at the working out of the same as shown in actual operation. Cleveland is not under absentee ownership. Clevelanders own the company. The management in Cleveland are all heavy stockholders in the company and are directly interested; therefore it is not really management of paid service alone, but it is a management largely by stockholders themselves. Some of its success is due to that. In this management they have also the benefit of *daily* counsel and criticism, not *monthly* or *annually* such as is granted by public state commissions. Nor has the criticism been selfish, partisan or political criticism, such as has so often developed at the hands of political bodies and newspapers in other cities.

TOM JOHNSON OPPOSED THE SLIDING SCALE

In the meetings in March, 1909, between Tom L. Johnson, mayor of Cleveland, and Horace E. Andrews, president of the Cleveland Railway

Company, and various councilmen, one of the councilmen suggested a sliding scale of interest, namely, that the lower the rate of fare the more interest could be paid on the investment. He said he thought there would be an *incentive then for the stockholders to make the fare as low as possible*, a saying which sounds very familiar now after eleven years. Mayor Johnson then replied, "And also quite an incentive to skimp the service; wouldn't it?" Mr. Andrews suggested the well-known gas company arrangement in England, and thought that it would be a fairly good arrangement, but Judge Tayler was firmly of the opinion that the company should have only a fair return on the money for the privileges granted by the city, and that it should not be subject to the hazards of operation. He was of the opinion that the railway company was entitled to earn only a fair return for the use of the streets, and that if by ingenuity and economical devices adopted by the operators a reduction in fare was accomplished, and if thereby they obtained more than a fair return on the money, or, as he expressed it, an abnormal rate on their investment, there was something wrong somewhere.

It seemed to the judge that it was fundamentally wrong to pay a man a bonus for doing that for which his salary is supposed to compensate him; that a bonus could not be a legitimate part of the cost, and that, therefore, this sort of an arrangement was service at *more* than cost; that the people are entitled, for the salary that they pay to the officers of the railway, to intelligent and efficient management, and that they ought not to be taxed any more. My own notion is that the idea is not only fundamentally wrong, but that practically it would not work because it creates an incentive on the part of the railway company to keep down their expenses by skimping the service. Under the present service-at-cost plan the company has no desire and no incentive to skimp the service. They do not interfere in the slightest way with the full latitude of the city in exerting its power, and there is no desire on their part to do so, because it makes no difference to them, within the limits of their power to earn 6 per cent, how much or how little service is run. But I believe any temptation of an added dividend before their eyes, resulting from a reduction of cost which would make it advisable for the company to reduce its operating expense, would create a tendency on its part to encroach on the city's prerogative as to service, by hampering and reducing the service in the many small ways by which they could do so without being caught by even an elaborate system of watching, and to render a cheaper and more unsatisfactory service even while ostensibly complying with the city's order. Such an objective is bad.

From the stockholder's standpoint it is an incentive for the management not to keep the property up, because the lower the maintenance charges, of course, the lower the rate of fare and the higher the return to the stockholders. It is also an incentive to keep down the maintenance by increasing the capitalization by charging repairs and replacements to capital, which could easily be done, thereby tending to make the enterprise top-heavy and reduce the physical value of the security which the stockholders have. This same thing would strike largely at the service given the car riders, because the first requisite of good service is a high class railroad, sufficiently maintained. Further than that, it increases the price which the city would have to pay on purchase and reduces the consideration for the price.

A sliding scale of return based on a

sliding scale of fares, in my judgment is also theoretically wrong, because the stockholders of the company are compensated by dividends, the management of the company is compensated by salary; in other words, the price of money is one thing and the price of service is another. They have no *immediate necessary* connection. But if you are going to vary the price of money which the stockholders put into the company in the ratio of the rate of fare, or, in other words, the cost of service, the law of economics would, it seems to me, command the reverse of the suggested arrangement. I have heard it argued by financial experts (especially in the last arbitration) that there is no connection between a fair return on money, in other words, the price of the same, and the price of other commodities. Others have argued that they rise and fall together. If there is any truth in the last argument that the price of money goes down and up as the price of commodities goes down and goes up, then as the cost of labor and materials used in the street railways, which largely determines the rate of fare, goes down, the return on the money invested should not go up. But, under the present incentive franchises, the return to the stockholders does go up as the fare goes down, instead of going down as it should if the above rule is correct.

It is also likely to be a bad arrangement from a practical standpoint for the public. According to the judgment of almost everyone we have reached the peak of high prices. There is bound to be a decrease in the next five or ten years. They may not drop to the point at which they were in 1914. They may stay at a slightly higher level. After the Civil war it took from ten to fifteen years to bring the prices of everything down to where they were before the war. The same condition obtained after the Napoleonic wars in Europe. If history repeats itself, by 1930 we shall be back where we were in 1914. But even if that is not so, it is admitted that prices must decrease even if they do not come to the low level of 1914. If they do decrease, street-railway fares must and should go down. But under the sliding scale, what is the result from the public's standpoint? As the costs go down, the expense of operating is going up by the extra amount which the stockholders secure, which tends again to keep the fares up.

The fare in the last five years went up largely without the fault of the railway companies of the country, due to economic conditions, and I am satisfied that, without their action, without any credit to them, they will, by reason of the same law, go down in the next five to ten years. But even if you grant that all these conclusions are wrong, I think that any scheme of incentive so far suggested is open to the criticism of lack of effectiveness, because of the remoteness from and lack of direct application to the actual executives. I cannot help thinking from my experience of service at cost, from my knowledge of what has happened in the last five years, that after all the real incentive to efficient management is to give the man at the wheel, the man who actually operates, sufficient compensation to keep his best interest in his work, and then to have an efficient city administration to act as the watchdog, to criticize, advise and sit on his neck day by day, as is done in Cleveland, to see that he earns his salary.

To recur to the question originally asked *Panacea* or *Nostrum?* We offer the Cleveland franchise, as a practical success, a sufficient remedy under its circumstances. Experience in Cleveland shows, in my judgment, that service at cost is not perfection, neither

is it a nostrum or quack medicine, that whether it is a panacea or not, or how closely it approaches being a panacea, depends partly upon the franchise, but much more upon the development of it, upon the people who are charged with executing it, in whose hands it rests, and upon the public, who, if they have confidence in the arrangement, will make it a success or a failure. Many criticisms of the Cleveland plan can be made, perhaps justly, but, as for Cleveland, Cleveland is satisfied.

SERVICE AT COST VERSUS MUNICIPAL OWNERSHIP

SEATTLE'S EXPERIENCE

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The latest link in the constantly tightening chair of public regulation of utilities is found in the service-at-cost franchise. Beginning with the passage of the interstate commerce law by congress in 1887, public regulation has steadily, if slowly, increased the power of government over public utility corporations, gradually lifting them out of the class of private business which may be operated to suit the purpose of its owners, and enforcing in increasing measure a consideration of the needs and the purses of their patrons, the public. As in the case of the steam-railroads, this progressive regulative effort in the public utility business has grown up in response to the demand for the abolition and curtailment of certain specific practices of the owners and managers of utility properties, which an awakening sentiment had condemned as contrary to the interests of the public.

PRIVATE MISMANAGEMENT

Only in recent years has it been recognized that a public utility is a natural monopoly. In fact when utilities were unregulated, the only hope of the consumer for reasonable rates and tolerable service was in competition. The great municipal utilities which operate in the streets of American cities to-day are almost without exception, consolidations of companies which were originally started or soon developed as competitors. The growth of urban population was extremely rapid, but the demand for utility service was in greater ratio. In the decade 1900 to 1910 population in the continental United States increased 21 per cent, while the number of passengers carried one mile by the steam railroads more than doubled, and a like condition prevailed in municipal utilities. The pioneers in the utility business soon found that competition was the only interference with their profits, and consolidation of the competing companies was the logical answer.

With their utilities consolidated the public soon felt the pressure of rate increases and service deterioration, complaints began to find their way into legislative bodies, and public regulation began to be attempted. Consolidation had not increased physical assets but had greatly increased capitalization, for not only had enor-

mous prices been paid for the control of competing companies, but large bonuses went to pay the promoters and financiers who had brought the consolidation about. Then if the new concern showed profits above a fair dividend, further issues of stock appeared, the total capitalization being based upon the earning power of the utility in its years of greatest prosperity. It was not considered good business to apply excess profits to debt retirement, nor to large dividends on stock already issued. Either of these practices, if they became known, would have been the basis for a public demand for reduced rates or better service. Depreciation reserves were neglected, or if they were set aside at all it was merely as a ledger account, and the actual money was used for dividends on the heavily watered stock. The rates were all the traffic would bear and the service was as little as could be given without too much public protest. Growing cities suffered for much needed extensions of utility service which were not made because they would not show an immediate profit. Street cars were designed to carry the greatest number of standing passengers, and the arrogance of the utility magnate was reflected in the conduct of his lowest employe. His responsibility was to his stockholders. His goal was more profits.

In order to ward off further competition and to defend themselves from attack, the utilities were forced to maintain lobbies in constant attendance upon legislative bodies, and to corrupt legislatures and city councils, and the story of these activities furnishes one of the saddest chapters in the history of municipal government in America. Extensive and expensive propaganda was used to influence public officials and leading citizens against public ownership and in favor of increases in rates, and the wells of public opinion were persistently and systematically poisoned.

Occasionally there has existed an honestly managed and efficiently operated public utility in private ownership, and to these I apologize for the company in which I have found them. Of all the different utilities, street railway interests have been the chief offenders. Ten years ago a proposal to guarantee them net earnings of 6 per cent on the actual value of their properties would have met with derision; now it is the straw which they hope will save them from drowning. Ten years ago one might search the files of their trade journals in vain for advocacy of public ownership; now you find it on every page. Ten years ago the proposal that a representative of the public should be admitted to the counsels of the management of the business would have been intolerable; to-day it has become an accepted part of the regulative scheme.

Regulation began with the imposition of a franchise tax, usually based on gross earnings. This was wrong in principle in that it took revenue from citizens in proportion to their use of the utility, for the benefit of citizens in proportion to their taxes; it was justified only because we had not learned any better. We knew that the profits of the utilities were too great, and were groping to find the proper way in which to curtail them. The sharp advance in the cost of labor and materials brought about by the war, the competition of the automobile and jitney, and past methods of frenzied finance by which the street railways were held at the verge of bankruptcy, have now forced them into a desperate situation. Increased fares are a palliative which is likely only to postpone the crisis.

THE EFFICACY OF SERVICE AT COST

Two alternatives will save them from destruction: municipal ownership or service at cost. Both are now being tried and we will be better able to judge their comparative merit ten years from now than we are to-day. But the situation presses.

The modern service-at-cost franchise puts an end to the evil practices of utility management which I have already outlined. It restrains financial sky rocketing, gives a reasonable control over management, provides for extensions and betterments, recognizes the street railway business as a natural monopoly, gives the public a little authority in the directorate, enforces adequate accounting, and retains to at least a small extent the alleged advantage of leaving the business in private management. But only to a small extent. The dominating motive of private ownership is a desire for profit, and business undertakings are attractive to business men largely in proportion to the chances of earnings beyond the legal rate of interest. If they can only earn 6 or 7 per cent they might as well invest in mortgage loans and go on a camping trip. Just now, however, the question with them is not future earnings, but the salvaging of the millions of capital which is threatened with obliteration.

The crucial point in a service-at-cost franchise is the valuation of the property of the utility, and this is true also of proposals for municipal ownership. Here is a decaying business, but one which it is essential to the public good to keep going, at least until its successor has been developed. Here is a property with securities outstanding far in excess of any reasonable estimate of its real value. It is in much the same condition as a manufacturing concern whose processes are obsolete and whose product is losing hold on public favor. What is it worth? It is not difficult for engineers to arrive at the value of property of a going concern, one with a future, but to fix a fair value of a street railway at the present time is a task which staggers the ablest expert in the business. A trolley pole may be worth what it costs as a trolley pole, but what if it is only an encumbrance to the street? Are we taking an unjust advantage in offering its owner its junk value? The American public wants to be fair to the public utility interests, but it does not want to be cheated. It does not want to buy a work horse and get a dead carcass which has no value except the hide.

DIFFICULTIES IN MUNICIPAL OWNERSHIP

Some cities have determined that they will themselves own and operate their street transportation business and are having a very interesting time. Many difficulties must be met and overcome. When the most of our state constitutions were written it was considered unsafe to allow much freedom to city governments. Honest men feared the entrance of the political unit into business, even the business of supplying the collective needs of its citizens, and the selfish interest of the utilities had an easy victory in denying the cities the right, or closing the avenues of opportunity, to engage in other businesses than those which did not offer profit to private operation. In fixing constitutional debt limits, even in some so-called home rule states, the full debt limit could not be reached excepting for water supplies and sewers, or less frequently, for sewers, water and light plants. And behind the constitution stood the legislature, usually dominated by a combination of interests in which the utility corporations were fully protected.

But even if the law gave authority and opportunity, the very structure of city government, up to the last ten or fifteen years, was not adapted to the new proposal of public ownership. The public mind was not open to such business undertakings nor were the usual public officials competent to operate them or willing to undertake the new burden. A new light is dawning upon American municipal life, but the dawn comes slowly, and the greater number of cities are to-day in the condition I have just outlined. The electorate is heedless, the government is cumbersome and unresponsive, the officials are frequently changing, poorly paid and unexpert, employes receive appointment and hold jobs on account of election day services, wages and standards of efficiency are low, and "politics" is not the science of government but a disreputable game for spoils. For such a city public ownership of utilities is unthinkable as a hopeful business undertaking. *Public regulation of privately owned utilities, having as its latest development the service-at-cost franchise, is as far as such a city should attempt to go.*

But no city government is as good or as bad as it might be. Extreme examples are rare. Cities are like the human beings which build them and inhabit them, containing much good in the worst, and some evil in the best of them. Bad impulses, in a city government as in the individual, are not only immoral, they are unintelligent, and when that fact is discovered and both reason and moral impulse get to work there is sure to be a change for the better. The decision between service at cost and municipal ownership in any city cannot be made on the basis of right and wrong; it must be influenced by local conditions, and particularly by the character of the city government.

SEATTLE ACTS HASTILY

Seattle has chosen to own and operate its street railways; it took them over by purchase on April 1, 1919, at a price of fifteen millions, paying for them with utility bonds, pledging the first application of the gross earnings to the payment of the interest and the gradual retirement of the principal in the term of twenty years. Seattle is a thriving city of 315,000 population. Its growth during the last decade was 33 per cent. Its population contains an unusually large proportion of intelligent, progressive, wide-awake Americans. Its government is the mayor-council form, the voters having defeated a city manager charter a few years ago. In addition to the recent purchase of its street railways it has owned and operated for many years its water works and an electric light and power plant, both of which have been very well managed and successful, and its Port district has splendidly equipped ocean terminals, warehouses, grain elevators and cold storage plants, all publicly owned and operated. The citizens are proud of their municipal undertakings, and when the question of buying the street railways came up in November, 1918, they voted for the purchase by about three and a half to one.

The deal was a hasty one and did not allow time for a thoroughgoing valuation of the property, but a valuation by accountants of the Public Service Commission, begun but not completed, showed it to be worth in the neighborhood of the purchase price, and the city officials, in a statement to the voters just previous to the election, gave its value as $16,102,946. I am inclined to believe that, considering the state of the business at that time and the growing difficulties in which traction interests all over the country

found themselves, the price paid was too high, but I approve the judgment of one member of the Seattle city council, quoted as asserting that he could not see that the lines exceed eight millions in value, but that he believed the elimination of the traction company from local affairs was worth the difference and he would vote for the purchase. The price was probably lower than any valuation which could have been agreed upon as a basis for a service-at-cost franchise.

THE COURSE OF MUNICIPAL OPERATION IN SEATTLE

Had the railways remained in the hands of their former owners, a raise in fares was imminent, and fares had been advanced in all other larger cities in the state. The Seattle railways under municipal ownership are burdened with a heavy obligation of debt liquidation which private ownership would not have entailed, but the new management, instead of raising rates at once, allowed their optimism to get the better of their judgment, asserting that their new utility would meet its obligations with a five-cent fare. Their system is virtually capitalized at $17,215,000, of which $16,440,000 is represented by utility bonds which are a first lien upon receipts, and not only must they pay 5 per cent interest on this sum, but they must also meet the principal in a series of annual payments of $833,000, beginning March 1, 1921.

It soon became evident that in spite of a number of economies, fares would have to be advanced, and while this subject was being discussed a municipal election came on. The management of the street railways was the chief issue and the result was a change of administration. The report of operation issued at the close of 1919, covering the first nine months of municipal ownership, showed that with a rather liberal allowance for depreciation the lines had run behind $517,000. The cash fare was raised to ten cents, with metal tokens sold on the cars at four for a quarter. The mayor in signing the ordinance said he believed the advance was not sufficient. Wages of carmen have advanced from 64 to 80 per cent over those paid in 1918, under private ownership. The gross loss for the first four months of 1920 including depreciation, was $468,000. There are rumors afloat that illegitimate means were used to influence the sale and the city council, at the request of the new mayor, has voted $10,000 as a fund for probing the transaction.

It is too soon to make a reasonable forecast of the outcome of Seattle's latest experiment in municipal ownership. Inadequate financing was forced upon the city by reason of constitutional debt limitation. It must pay for its purchase in eighteen years and at the same time build up a depreciation reserve of over twelve millions, thus placing an enormous burden upon its street car patrons in this generation in order to turn over to the citizens of twenty years hence a street railway fully paid for and adequately maintained. It is a feat which no private company would undertake. A service-at-cost franchise would have called only for the payment of operation, depreciation and interest, and unless there is careful management the fares may be higher during this twenty-year period than they might have been under service at cost. Seattle has not an ideal form of government for carrying on the business of utility management, yet its publicly owned water-works and electric light and power plant have been efficiently managed, and the high-class men who are at their heads as superintendents, have been there many

years, through many changing political administrations. The civic spirit in Seattle is high and I believe that public ownership has a better opportunity there than in many cities which have more modern forms of government.

CAN PUBLIC OPERATION BE EFFICIENT?

We are inclined to base our judgment on public ownership upon the presumption that privately owned utilities are always well managed, and that the reverse is true of all municipal undertakings. That this is a fallacy any intelligent student who is open-minded will affirm. Many of the municipally owned utilities have passed through this post-war period without asking for rate increases and are solvent. I know of no city which has owned and operated any utility for ten years or more, in which there has not been a great saving to its people by reason of reduced rates, not only for its own service, but by reason of its competition with privately owned utilities which have thereby been induced to reduce their rates. Municipal ownership is not often credited with any advantage for this reason, and yet I can name cities in which public ownership would have been of the greatest advantage even if the publicly owned plant had never turned a wheel. The tendency in municipal plants is to pay off and cancel funded debt obligations; that of privately owned plants is to increase them. Under municipal ownership the chief incentive of operation is to give service; under private ownership it is to make profits. The tendency under private ownership is to a brand of political activity that, in my opinion, is infinitely worse than any "politics" that may creep into management under public ownership. The people in every city in the state of Washington will be heartily thankful for any curtailment of the evil political domination of the state legislature by the former Seattle traction interests which results from municipal ownership in that fine city.

It is my firm opinion that service at cost is a transition state, a temporary expedient, and one which will be in the long run unsatisfactory to both the owners of street railways and the public. To the owners, it will be just a tightening of the chain of public regulation which curtails more and more their freedom of operation, but it will be sought in order to fix a value which may form a basis for public purchase later. The voters will ultimately awaken to the necessity of a better form of city government, in which the officials have more authority and more responsibility, and of a more lively interest in government on their own part, and when these things have been accomplished, they will insist upon the ownership of their public utilities and their operation on the basis of the greatest good to the greatest number, and the banishment from municipal life of those evil forces, which have done so much to corrupt city government in America.